



K A N S A S

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DATE: October 10, 2007
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TO: Management of Kansas chartered credit unions
SUBJECT: Limitations on Terms of Consumer Credit Extended to Service Members and Dependents, Department of Defense Final Rule, 32 C.F.R. Part 232

Credit union management should be aware of a new rule effective October 1, 2007 published by the Department of Defense (DoD) that places additional requirements on lenders offering certain specific types of consumer loan products to members of the military and their dependents.

Types of Credit Covered by the Rule

- **Payday loans:** closed-end loans having a term of 91 days or less and the amount financed is not more than \$2,000. The borrower must also provide a check or other payment instrument or the borrower authorizes the creditor to debit the borrower's deposit account
- **Tax refund anticipation loans:** closed-end loans in which the borrower expressly grants the creditor the right to receive all or part of the borrower's tax refund or agrees to repay the loan with the proceeds of the refund.
- **Vehicle title loans:** closed-end loans of 181 days or less, other than a purchase money transaction, which are secured by the title to a motor vehicle owned by a covered borrower.

Military Annual Percentage Rate (MAPR)

- The rule limits interest to a 36 percent "military annual percentage rate (MAPR)" that comprises all fees and charges, including those for single premium credit insurance and other ancillary products not directly related to the cost of borrowing sold in connection with the transaction; and
- requires that certain oral and written loan disclosures be provided before the issuance of the covered transaction.

The DoD rule provides:

- Language for the required consumer disclosures;
- method for calculating the MAPR
- maximum amount and types of fees that may be charged; and
- a "safe harbor" for identifying covered borrowers, including a model borrower identification statement that creditors may use.

The DoD rule prohibits implementing certain loan terms such as:

- Requiring mandatory arbitration;
- requiring borrowers to sign a waiver of legal rights;
- requiring unreasonable notice requirements as a condition for legal action;
- requiring payment by allotment; and
- requiring prepayment penalties.

If you have questions about how to interpret the DoD rule, we suggest you contact appropriate legal counsel.

/s/John P. Smith, Administrator

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